

# FISCAL NOTE

**Bill #:** SB0479      **Title:** Revise coal severance tax -- rate higher if less than 40 million tons produced

**Primary Sponsor:** Elliott, J      **Status:** As Introduced

Sponsor signature	Date	Chuck Swysgood, Budget Director	Date
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<b>Fiscal Summary</b>	<b>FY 2004 <u>Difference</u></b>	<b>FY 2005 <u>Difference</u></b>
<b>Revenue:</b>		
General Fund	\$1,398,789	\$2,634,741
State Special Revenue		
Long Range Building Program	\$611,438	\$1,146,055
Local Impacts Account	\$394,887	\$740,161
Renewable Resource Loan Debt Service	\$48,406	\$90,729
Treasure State Endowment Program	\$5,446	\$36,411
Regional Water System Program	\$3,571	\$22,955
DFWP - Parks Acquisition	\$281	\$1,890
Cultural & Aesthetic Projects Account	\$144	\$967
Trust Funds		
Coal Severance Tax Permanent Fund	\$636,915	\$1,193,807
Treasure State Endowment Fund	\$1,273,830	\$2,387,615
Regional Water System Fund	\$636,915	\$1,193,807
Parks Trust	\$64,711	\$121,291
Cultural & Aesthetic Trust	\$32,101	\$60,168
<b>Net Impact on General Fund Balance:</b>	<b>\$1,398,789</b>	<b>\$2,634,741</b>

- |   |   |
|---|---|
| <input type="checkbox"/> Significant Local Gov. Impact<br><input type="checkbox"/> Included in the Executive Budget<br><input type="checkbox"/> Dedicated Revenue Form Attached | <input checked="" type="checkbox"/> Technical Concerns<br><input checked="" type="checkbox"/> Significant Long-Term Impacts<br><input checked="" type="checkbox"/> Needs to be included in HB 2 |
|---|---|

## Fiscal Analysis

### ASSUMPTIONS:

- Under current law, the coal severance tax rate for coal produced from a surface mine is 10% if the heat content of the coal is less than 7,000 Btu per pound and 15% otherwise. For coal from an underground mine, the rate is 3% if the heat content is less than 7,000 Btu per pound and 4% otherwise.
- Beginning January 1, 2004, this bill would increase the tax rates for any quarter when total coal production in the previous fiscal year was not more than 40 million tons. For coal from a surface mine, the rate would be 13% if the heat content is less than 7,000 Btu per pound and 20% otherwise. For coal

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from an underground mine, the rate would be 4% if the heat content is less than 7,000 Btu per pound and 5.2% otherwise.

3. Coal production is projected to be less than 40 million tons in fiscal years 2003 and 2004. The increased rates would be in effect for the second half of fiscal 2004 and all of fiscal 2005. All coal production in fiscal years 2004 and 2005 is expected to be from surface mines. Table 1 shows the calculation of coal severance tax for this period under current law, under this bill, and the differences.

Table 1 Coal Severance Tax Collections - Current Law and SB479				
	Taxable Value	Current Law Tax	Tax Under SB479	Difference
FY2004 First Half				
Surface Coal < 7,000 Btu	\$ 1,266,831	\$ 126,683	\$ 126,683	\$ -
Surface Coal > 7,000 Btu	\$ 101,146,309	\$ 15,171,946	\$ 15,171,946	\$ -
FY2004 Second Half				
Surface Coal < 7,000 Btu	\$ 1,266,831	\$ 126,683	\$ 164,688	\$ 38,005
Surface Coal > 7,000 Btu	\$ 101,146,309	\$ 15,171,946	\$ 20,229,262	\$ 5,057,315
Total Tax		\$ 30,597,259	\$ 35,692,579	\$ 5,095,320
FY2005				
Surface Coal < 7,000 Btu	\$ 2,533,432	\$ 253,343	\$ 329,346	\$ 76,003
Surface Coal > 7,000 Btu	\$ 189,489,102	\$ 28,423,365	\$ 37,897,820	\$ 9,474,455
Total Tax		\$ 28,676,709	\$ 38,227,167	\$ 9,550,458

4. Coal severance tax collections are allocated to nine accounts, three of which are subfunds of the coal severance tax trust fund. Table 2 shows the percentage of collections allocated to each account, revenue to each account under current law, under this bill, and the differences.

Table 2 Coal Severance Tax Allocation - Current Law and SB479							
Account		Current Law		SB479		Difference	
		FY2004	FY2005	FY2004	FY2005	FY2004	FY2005
Coal Tax Trust Fund							
Permanent Fund	12.50%	\$ 3,824,657	\$ 3,584,589	\$ 4,461,572	\$ 4,778,396	\$ 636,915	\$ 1,193,807
Treasure State Endowment Fund	25.00%	\$ 7,649,315	\$ 7,169,177	\$ 8,923,145	\$ 9,556,792	\$ 1,273,830	\$ 2,387,615
Regional Water System Fund	12.50%	\$ 3,824,657	\$ 3,584,589	\$ 4,461,572	\$ 4,778,396	\$ 636,915	\$ 1,193,807
Long Range Building Program Acct	12.00%	\$ 3,671,671	\$ 3,441,205	\$ 4,283,109	\$ 4,587,260	\$ 611,438	\$ 1,146,055
Local Impacts Account	7.75%	\$ 2,371,288	\$ 2,222,445	\$ 2,766,175	\$ 2,962,605	\$ 394,887	\$ 740,161
Parks Trust Fund	1.27%	\$ 388,585	\$ 364,194	\$ 453,296	\$ 485,485	\$ 64,711	\$ 121,291
Renewable Resource Loan Debt Svce	0.95%	\$ 290,674	\$ 272,429	\$ 339,080	\$ 363,158	\$ 48,406	\$ 90,729
Cultural & Aesthetic Trust Fund	0.63%	\$ 192,763	\$ 180,663	\$ 224,863	\$ 240,831	\$ 32,101	\$ 60,168
General Fund	27.40%	\$ 8,383,649	\$ 7,857,418	\$ 9,779,767	\$ 10,474,244	\$ 1,396,118	\$ 2,616,826
Total		\$ 30,597,259	\$ 28,676,709	\$ 35,692,579	\$ 38,227,167	\$ 5,095,320	\$ 9,550,458

5. This bill increases deposits to several trust funds, which will increase interest earnings on those trusts. In a fiscal year, the average balance in a trust fund is the beginning balance plus each of the deposits multiplied by the fraction of the year remaining when it is deposited. Coal severance tax is paid quarterly, within 30 days of the end of each quarter. The quarterly deposits occur with 8, 5, 2 and 0 months remaining in the fiscal year. In fiscal 2004, this bill would increase the last two quarterly deposits. The average balance of each of the subfunds would be increased by 1/16th of the additional deposits ( $1/16 = \frac{1}{4}$

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x 2/12 + 1/4 x 0). In fiscal 2005, the average balance of each subfund would be increased by the additional deposits in the previous year plus 5/16ths of the additional deposits in fiscal 2005 ( $5/16 = 1/4 \times 8/12 + 1/4 \times 5/12 + 1/4 \times 2/12 + 1/4 \times 0$ ).

6. Table 3 shows the calculation of increased interest earnings for fiscal years 2004 and 2005. Interest on the coal severance tax permanent fund is deposited in the general fund.

Table 3 SB479 Impact on Trust Fund Earnings								
	Difference in Deposits		Difference in Average Balances		Interest Rates		Difference in Interest	
	FY2004	FY2005	FY2004	FY2005	FY2004	FY2005	FY2004	FY2005
Permanent Fund	\$ 636,915	\$1,193,807	\$ 39,807	\$263,850	6.71%	6.79%	\$ 2,671	\$ 17,915
Treasure State Endowment Fund	\$1,273,830	\$2,387,615	\$ 79,614	\$527,701	6.84%	6.90%	\$ 5,446	\$ 36,411
Regional Water System Fund	\$ 636,915	\$1,193,807	\$ 39,807	\$263,850	8.97%	8.70%	\$ 3,571	\$ 22,955
Parks Trust Fund	\$ 64,711	\$ 121,291	\$ 4,044	\$ 26,807	6.94%	7.05%	\$ 281	\$ 1,890
Cultural & Aesthetic Trust Fund	\$ 32,101	\$ 60,168	\$ 2,006	\$ 13,298	7.16%	7.27%	\$ 144	\$ 967

7. This bill would not have significant administrative impacts on the Department of Revenue.

## FISCAL IMPACT:

	FY 2004 <u>Difference</u>	FY 2005 <u>Difference</u>
<u>Revenues:</u>		
General Fund (01)	\$1,398,789	\$2,634,741
State Special Revenue (02)		
Long Range Building Program	\$611,438	\$1,146,055
Local Impacts Account	\$394,887	\$740,161
Renewable Resource Loan Debt Service	\$48,406	\$90,729
Treasure State Endowment Program	\$5,446	\$36,411
Regional Water System Program	\$3,571	\$22,955
DFWP - Parks Acquisition	\$281	\$1,890
Cultural & Aesthetic Projects Account	\$144	\$967
Federal Special Revenue (03)		
Trust Funds (09)		
Coal Severance Tax Permanent Fund	\$636,915	\$1,193,807
Treasure State Endowment Fund	\$1,273,830	\$2,387,615
Regional Water System Fund	\$636,915	\$1,193,807
Parks Trust	\$64,711	\$121,291
Cultural & Aesthetic Trust	\$32,101	\$60,168

## Net Impact to Fund Balance (Revenue minus Funding of Expenditures):

General Fund (01)	\$1,398,789	\$2,634,741
State Special Revenue (02)		
Long Range Building Program	\$611,438	\$1,146,055
Local Impacts Account	\$394,887	\$740,161
Renewable Resource Loan Debt Service	\$48,406	\$90,729
Treasure State Endowment Program	\$5,446	\$36,411
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Federal Special Revenue (03)

Trust Funds (09)

Coal Severance Tax Permanent Fund	\$636,915	\$1,193,807
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Parks Trust	\$64,711	\$121,291
Cultural & Aesthetic Trust	\$32,101	\$60,168

EFFECT ON COUNTY OR OTHER LOCAL REVENUES OR EXPENDITURES:

This bill would increase funding to counties by \$394,887 in fiscal 2004 and \$740,161 in fiscal 2005.

LONG-RANGE IMPACTS:

This bill would increase coal severance tax collections in any future fiscal years when total production in the previous fiscal year was 40 million tons or less. This bill would increase interest earnings from the permanent fund, Treasure State Endowment fund, regional water system fund, parks trust, and cultural and aesthetic trust in all future fiscal years. If coal production is less than 40 million tons in future fiscal years, the increase in interest earnings would grow over time.

TECHNICAL NOTES:

1. This bill sets a threshold of 40 million tons, but is not consistent in its statement of that threshold. It is stated in terms of tons mined, tons produced and sold, and tons sold.
2. The bill needs to clarify whether coal produced on a reservation or on land formerly part of a reservation is to be included in determining whether production has exceeded the threshold.